

# NO VACANCY:



## Limited Hotel Supply in Secondary Indian Cities Poses Challenges for Corporate Travel Programmes

When a sales team for an FMCG company travelled from Delhi to Lucknow a couple of years ago, they were in for a surprise.

They had only decided to go there the night before, so they hadn't booked any rooms – pretty common for the team, who often made last minute trips.

This time, however, their luck ran out. The usual hotel was fully booked. And so were several others. They quickly identified the problem.

"There was a big wedding, with 3,000 guests coming in from other parts of India that day," said Akshay Kapoor, Senior Director of Asia Pacific Multinational Sales at CWT. "And that's why there was a 0.0% chance of getting a hotel room."

It is a cautionary tale for managing a travel programme in India, particularly when it comes to accommodation. India is a challenging market, and any business travel programme needs to be thought through carefully. That's particularly true in cities like Lucknow, where the infrastructure for business travel has struggled to keep up with the growth.

### A BOOMING MARKET

India's economic growth used to be sluggish. Now, it's the world's fastest-growing large economy. Forecasts for next year's growth vary, but the IMF and ratings agencies predict a rate well above 7%. And there's plenty to suggest that growth isn't limited to the big cities like Mumbai or Delhi.

A recent report from Capital Economics found that 17 of the top 20 fastest growing cities in the world are in India. Secondary cities have grown dramatically, and travel infrastructure spending has followed. For example, the government says it will spend US\$60bn on 100 new airports over the next 15 years.

Perhaps it's little wonder that both Indian companies and multinationals are spreading their wings, trying to tap into markets beyond Delhi, Mumbai, Bangalore, Chennai and Kolkata. As a result, business travel is beginning to boom in less obvious cities. CWT data (table, right) shows steady growth in business travel to cities like Jaipur, Indore, Lucknow and Coimbatore.

#### TOP 10 SECONDARY CITIES IN INDIA RANKED BY GROWTH IN BOOKINGS FROM 2014-2018

- Jaipur ↑ 12%
- Indore ↑ 12%
- Lucknow ↑ 9%
- Coimbatore ↑ 8%
- Ahmedabad ↑ 8%
- Guwahati ↑ 7%
- Bhubaneswar ↑ 6%
- Goa ↑ 6%
- Kochi ↑ 3%
- Chandigarh ↑ 1%

Source: CWT data

## WITH HOTELS IN SHORT SUPPLY, GUEST HOUSES RULE

For all of India's rapid improvement in air, rail and road connectivity, there's still plenty of room to grow for hotels and accommodation. The main issue is simply that hotels – especially those suitable for business travel – can't be built in an instant. And so the stock of rooms hasn't kept pace with the rising demand.

Data from STR, a hotel and travel sector research firm, shows that in many secondary cities, the demand for hotels far outstrips the growth in supply. In Chandigarh, for example, demand for hotels grew 12.7% between 2013 and 2018, while supply increased by 7.5%. During the same period, Jaipur saw an 8.9% increase in demand – more than double the 4.2% growth in supply. And in Ahmedabad, growth in demand outpaced supply 9.2% vs. 7.6%.

Companies often prefer including bigger, established hotel brands in their travel programmes as they offer a consistent experience and include amenities like Wi-Fi and 24-hour front desk service, which are important for business travellers. These hotels are also better equipped to address safety and security concerns, an increasingly important consideration for corporate travel programmes in India. And by having all their employees stay in two or three hotel brands, no matter where they travel to, companies can consolidate their spend and negotiate better corporate rates.

"The trouble is, secondary cities in India currently don't have an abundance of such properties," says Kapoor. "Even when there is a well-known brand, small fluctuations in demand mean there's a good chance they will be booked out. And when this happens, there can be a sudden spike in rates."

For these reasons, it's not at all unusual for business travellers in India to book independent guest houses or 1-2 star properties. This brings its own set of challenges.



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## SAFETY AND SECURITY CONCERNS

Safety is a big issue, particularly with guest houses and super-budget properties, where security practices vary widely. At a chain, there'll be standards, but it's difficult to know whether a local guest house has adequate street lighting or fire exits that are up to code.

Security is an issue that can affect the bottom line. Akshay Kapoor knows one company that was reluctant to send female employees to a city because of safety concerns, which meant that the best employees were sitting on the sidelines instead of doing their jobs. They eventually solved the problem by sending a travel manager to personally audit the property.

What's more, these independent properties are typically not available on the global distribution systems (GDS) – and so some travel management companies (TMCs) aren't able to offer these options. This means travellers often end up booking their accommodation directly with the properties or through other websites, rather than through the TMC. As a result the booking data isn't automatically captured, making it difficult for organisations to track their travellers in the event of an emergency like a terror attack or natural disaster.

Veronique Lescaut, Vice President of Sales in Asia Pacific for RoomIt, CWT's global hotel distribution division, says the company has been making more non-GDS content available to its customers.

"Given the demand and supply dynamics in these smaller cities, guest houses and other budget accommodation can be a necessity for travel programmes in India", said Lescaut. "Over the last few years we've partnered with several leading hotel aggregators to make this content available to our customers. We now offer close to 31,000 properties in India, of which around 75% are in secondary and tertiary cities."

This has translated to positive results for CWT's clients, according to Lescaut. "We have seen hotel attachment in India increase six percent between 2016 and 2018," she added.

Hotel attachment means that travellers book a hotel through the TMC when they book a flight or rail ticket with an overnight stay. This yields many benefits for companies, including improved cost control resulting from greater visibility of their hotel spend, traveller tracking in case of emergencies, as well as an improved traveller experience and access to TMC support when bookings need to be changed or cancelled.





## PAYMENT TROUBLES

Another challenge with these smaller, independent properties is payments. Unlike larger hotel chains, most of these properties don't support centralized billing, nor do they accept credit cards or virtual payment cards. They only accept cash at check-in or check-out.

This is one reason many Indian companies don't issue corporate credit cards to their travellers. Instead, they follow the per diem model where travellers are given a fixed amount of cash for their trip and can choose any accommodation that fits this allowance.

However, as Lescaut explains, "with the per diem system, travellers can pocket any money they don't spend and so they go to great lengths to find the cheapest possible accommodation options. Not only does this mean they're less productive at work, it also means they could be staying in properties that aren't necessarily safe."

Some companies give their travellers cash with the understanding that they'll get receipts and pay back any left over money. But many companies are moving away from this model because of the administrative burden, according to Kapoor.

## STRONG HOTEL PIPELINE EXPECTED TO ALLEVIATE SUPPLY ISSUES

Hotel chains can see the gap in the market, and are rushing to fill it.

The Radisson Hotel Group (RHG) has been an early mover. They say that of 100 proposed hotels in RHG India pipeline, 40% are in secondary cities, of which over 60% are in the mid-market segment brands.

"We are seeing better connectivity of roads, airports, and internet which results in greater investment and travel to these cities. It has further strengthened our belief in entering these markets as the real growth will come from these cities in the future," said Pooja Deshpande, Radisson's Senior Director of Commercial Sales, Asia Pacific.

The upside of staying at a Radisson, or similar brand, is that standards will be more or less the same, regardless of which city the hotel is in. And in addition to fairly standard rooms and reliable internet, they'll often be simpler to book.

Other companies are moving in too. Vidhi Godiawala from STR says there's rapid expansion among Indian mid-market chains such as Treebo and OYO Hotels & Homes.

"These new budget hotel chains are here to bridge the accommodation gap helping travellers with sanitized and comfortable stay options in various micro markets," said Godiawala.

Luxury and upscale hotels are also moving in. STR says Jaipur, Goa, Kochi, Chandigarh and Ahmedabad together saw 236 new hotel openings between 2013 to 2018, with another 20 under planning and construction in this segment alone. Even cities such as Agra, Pune, Lucknow and Indore are seeing traction with the branded hotels, both international as well as domestic chains.

Unfortunately for the sales team from the FMCG company, they didn't have much choice. They simply got on the train and made the roughly eight hour trip home. The good news for companies and their travellers is that the future looks bright.